Afronomicslaw Sovereign Debt Quarterly Brief, No. 6 of 2025: African Subnational Governments and the Proliferation of Climate Finance Instruments (English & Swahili)

By:

Ohio Omiunu
Ifeanyichukwu Azuka Aniyie

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Abstract

With African non-central governments (NCGs) (i.e., sub-states, regions, cities, municipalities, local governments, etc.) increasingly vulnerable to climate induced impacts, there is a pressing need for local adaptation and mitigation financing that aligns with both environmental and socio-economic priorities. This need has precipitated a shift towards climate finance instruments to meet

the funding deficit for local adaptation and mitigation projects at the local level. A case in point is the Tanga UWASA bond, East Africa's first subnational water infrastructure green bond. Touted as an important step towards local revenue mobilization for green projects from the domestic debt market, this instrument raises critical questions about debt responsibility, the prioritization of bankable projects over community needs, and the risk of financialization of essential public utilities.

This study explores whether the Tanga UWASA Green Bond represents true domestic capital mobilization or entrenchment of foreign financial dependence, given its recent listing on the Luxembourg Stock Exchange (LuxSE). Additionally, the report addresses the hidden transaction costs, the crowding-out effect on private capital, and the potential for socio-economic displacement tied to investor-driven return imperatives. By evaluating the bond's structure against international green bond standards and Tanzania's Five-Year Development Plan, this report critiques the potential of green finance to balance debt sustainability with meaningful environmental and social outcomes. We argue that the Tanga UWASA bond exemplifies the promise and pitfalls of innovative climate finance in Africa, revealing the complexities facing African subnational governments (SNGs) as they navigate global financial architectures that may serve external interests over and above local development needs.

This brief is organized as follows. Sections 2–4 review and analyze the literature on sovereign debt restructuring in Africa. They cover the sustainability of sovereign debt, the costs of sovereign debt restructuring, and the primary actors in sovereign markets and sovereign debt restructuring. Sections 2–4 also establish that current studies on sovereign debt and sovereign debt restructuring in Africa have ignored the important subject of the costs associated with using intermediaries in negotiating and concluding sovereign debt restructuring agreements. Based on the foundation established in sections 2–4, section 5 examines intermediaries and the costs associated with employing them for assistance in restructuring sovereign debt in Africa. Section 5 also offers a qualitative and quantitative analysis of the research data available from government reports, using Ghana and Zambia as case studies since they recently restructured their debts. Section 5 establishes the lack of transparency of the costs, charges, and expenses that African governments

incur in connection with debt restructuring. These costs are financial and regulatory and can increase or compound government debts. Section 6 contains the brief's concluding remarks and offers the author's policy recommendations.

Download the English Version of full report here: African Subnational Governments and the Proliferation of Climate Finance Instruments

Download the Swahili Version of the full report here: Hatifungani ya Kijani ya Mamlaka yaMajisafi na Usafi wa Mazingira Tanga(Tanga UWASA) ni nini?

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